

“Approved”

by resolution of the Board of
Directors of JSC NC
“KazMunayGas” on 4 October
2018,
Minutes No. 14/2018,
Annex to item No. 19 of the
meeting’s agenda

Regulation
on assessment of performance of JSC NC “KazMunayGas” Board of
Directors, Committees of the Board of Directors, Chairman, members of the
Board of Directors and Corporate Secretary

Astana, 2018

1. General Provisions

1.1. The purpose of this regulation on assessment of performance of Board of Directors, Committees of the Board of Directors, Chairman, members of the Board of Directors and Corporate Secretary of JSC NC “KazMunayGas” (“Regulation”) is to describe the manner in which JSC NC “KazMunayGas” (“KMG”) Board of Directors (“BoD”) should be plan and make assessment of performance (“Assessment”) of BoD, BoD Committees (“Committees”), Chairman, BoD members (“Directors”) and Corporate Secretary of KMG, and to use the outcome of such assessment.

1.2. The Regulation has been developed with due account for the following requirements of:

- 1) the Kazakhstan Joint-Stock Companies Law;
- 2) the Charter of JSC NC “KazMunayGas” approved by resolution of an entity that holds all voting shares of JSC NC “KazMunayGas” (resolution of the Management Board of Samruk-Kazyna JSC) dated 22 April 2016 (Minutes No. 13/16);
- 3) Code on Corporate Governance of JSC NC “KazMunayGas” approved by resolution of the Sole Shareholder (resolution of the Samruk-Kazyna JSC Management Board dated 27 May 2015, Minutes No. 22/15);
- 4) Corporate governance diagnostics methodology in legal entities where more than 50% of voting shares are directly or indirectly owned by Samruk-Kazyna JSC (“Methodology”) approved by resolution of the Management Board of Samruk-Kazyna JSC on September 26, 2016, Minutes No. 35/16;
- 5) Methodological guidelines on assessment of performance of the Board of Directors and its committees, Chairman, members of the Board of Directors and Corporate Secretary of Samruk-Kazyna JSC organizations (“Guidelines”) approved by resolution of the Samruk-Kazyna JSC Management Board dated 26 September 2016, Minutes No. 35/16.

1.3. The Regulation takes into account best international corporate governance practices and standards.

1.4. The Regulation is a standing internal regulatory document of KMG. The Regulation shall be approved, amended and recognized as invalid by BoD as per proposal from the Nominations and Remuneration Committee of KMG BoD.

2. Purpose, Objectives and Principles of Assessment

2.1. The purpose of the Assessment is to improve the quality and efficiency of performance of KMG BoD, its Committees, Chairman, Directors and Corporate Secretary, and, as a result to increase BoD contribution to the growth of long-term value and sustainable development of the organization.

The objectives of the assessment are as follows:

- 1) analysis of BoD effectiveness based on common principles and criteria;
- 2) determination of BoD operation effectiveness as a whole, its Committees, Chairman, each Director and Corporate Secretary;

3) identification of BoD strengths and weaknesses compared to international best practices and standards, as well as identification of hidden reserves and unused capacity of BoD;

4) identification of directions and measures to further improve BoD operation;

5) establishment of BoD optimal structure based on necessary balance of experience, knowledge, skills and personal qualities of its members.

2.2. The principles (criteria) of the assessment are as follows:

1) regularity - assessment is mandatory on an annual basis, independent assessment shall be made at least once every three years;

2) complexity – the effectiveness of BoD operation is associated with the effectiveness of BoD functioning as a collegial body. In this regard, it is necessary to conduct a holistic assessment, which includes assessment of the work of BoD and its Committees, Chairman, Corporate Secretary and each individual Director;

3) continuous improvement - in order to improve BoD efficiency, it is necessary to continuously develop and optimize its operation. Assessment results shall be compared with those of previous years in order to determine the dynamics. In addition, all Directors should adhere to the time frame set in the assessment plan and provide feedback in a timely manner;

4) reality – assessment shall be based on the involvement, openness and integrity of all Directors. Responses should reflect the real situation as perceived by the respondent;

5) confidentiality - it must be respected for all participants, the results shall be provided only in a generalized form, without any references to the opinions of the respondents.

2.3. The assessment includes, but is not limited to the following issues:

1) BoD optimal structure (balance of skills, experience, diversity, objectivity) in the context of the challenges facing the organization;

2) clarity of understanding the vision, strategy, key objectives, challenges and values of the organization;

3) succession and development plans;

4) BoD functioning as a single body, the role of BoD and the head of the Executive body;

5) effectiveness of interaction in BoD, BoD with the agencies and officials of the organization;

6) effectiveness of each Board member;

7) effectiveness of BoD committees and their interaction with BoD, members of the Executive body;

8) quality of information and documents provided to BoD;

9) quality of discussions held by BoD, Committees;

10) effectiveness of the Corporate Secretary;

11) clarity of understanding the processes and competences;

12) risk identification and assessment process;

13) interaction with shareholders and other stakeholders.

3. Main aspects and stages of the Assessment

3.1. In accordance with the Code and based on the range of issues within the BoD competence, Assessment shall be divided into several stages, the end result of which is to improve the efficiency of BoD, Directors and KMG as a whole.

3.2. Assessment shall be mandatory to conduct by BoD on an annual basis. Assessment methods are self-assessment (assessment made by BoD not involving an independent consultant) or engagement of an independent consultant to improve the quality of the Assessment. An independent external consultant shall be engaged at least once every three years. BoD Chairman shall initiate the issue on BoD assessment at BoD meeting, where the decision is taken on external assessment or self-assessment.

3.3. The results and conclusions of the Assessment should be meaningful, realistic and practical.

3.4. The following persons/groups shall be assessed/self-assessed annually:

- 1) BoD as a whole;
- 2) BoD Committees;
- 3) Chairman;
- 4) Corporate Secretary;
- 5) Each Director individually.

3.5. Chairman is responsible for the whole process of Assessment, chooses the approach and monitors implementation of the Action Plan to improve operation and development of BoD members (hereinafter – Plan), established on the basis of the Assessment.

3.6. The key roles in the Assessment process are as follows:

1) Chairman shall lead the Assessment process, provide feedback to the entire BoD and to each of the Directors, inform the entity holding all the voting shares of KMG (major shareholders) on the results of the Assessment and discuss measures for improvement, as well as monitor the implementation of the Plan;

2) Chairman of the Nomination and Remuneration Committee of the BoD shall ensure the assessment process of the Chairman and be the link between Directors and Chairman;

3) Chairmen of Committees shall ensure assessment of the effectiveness of their Committees;

4) an independent consultant (in case of independent assessment) shall act as a moderator and methodologist, organize and coordinate Assessment process. Expertise, professional knowledge and practical experience in this sphere provide a high level of analysis and quality of work;

5) Directors shall ensure active participation, openness, honesty and involvement, which are the most important factors for successful assessment;

6) Corporate Secretary is responsible for preparation of questionnaires prior to the self-assessment, as well as for preparation of statistical data on (not limited to):

– statistics of attendance of the BoD and committees' meetings by BoD members;

– execution of the annual work plan of BoD;

– number of meetings of BoD and committees;

- number of face-to-face/correspondence meetings of BoD and committees;
- average duration of meetings of BoD and committees;
- average number of items on the agenda;
- average duration of discussions on the agenda during meetings of BoD and committees;
- participation of Directors in committees;
- implementation of measures to improve BoD operation and/or development of BoD members based on the results of previous assessments, etc.

7) Corporate Secretary shall be responsible for providing the summary of the Assessment results to the person responsible for Assessment, calculation of the ratings by components, objectives and the final Assessment rating, as well as for consolidating results of the mutual effectiveness Assessment (survey 360, which involves mutual assessment of Director's effectiveness by other BoD members and committees (hereinafter – Assessment 360)) and providing prepared calculations to the Chairman to prepare assessment REPORT (hereinafter – Report). In order to maintain confidentiality, Assessment 360 shall be conducted in the form of an anonymous electronic survey according to a template agreed by the Nomination and Remuneration Committee of BoD.

3.7. In order to ensure the unity of approaches, principles and criteria, Assessment/self-assessment shall be made based on Section 1 of the “Efficiency of the Board of Directors and the Executive body” methodology taking into account paragraph 2.3 of the Guidelines.

3.8. Provisions of the Guidelines shall be applied in independent Assessment, while a third party assessment, among other things, involves the following steps to be made by an independent consultant:

1) **Interviews with stakeholders.** Interviews shall be conducted with all Directors, Corporate Secretary, management representatives and key stakeholders (if necessary).

2) **Analysis of internal regulations and materials.** List of information and documents that may be requested and reviewed by the consultant during independent assessment shall be agreed by the Chairman upon submission by the Corporate Secretary.

3) **Observation of the BoD meetings.** By the decision of the Chairman, during independent Assessment, consultant may participate in the meeting of BoD as an observer. Based on the results of the observations consultant shall make a conclusion about the atmosphere of the meeting, relationship between the Directors, the style and productivity of discussions, involvement of Directors in the decision-making process, possible areas of optimizing the work of BoD and Directors in accordance with the established criteria of the Guidelines.

4) **Evaluation of the Corporate Secretary operation.** Assessment of the Corporate Secretary shall be based on the analysis of materials, as well as interviews with BoD members. Summarized data shall be discussed at the meeting of the consultant with the Chairman and Corporate Secretary.

3.9. Independent assessment should be based on the results of the analysis, supporting documents and materials collected by the consultant and information obtained during the interview, and should reflect the following:

1) extent to which BoD and its work meet the requirements, standards and established procedures, based on quantitative analysis (e.g., proportion of independent Directors, frequency of face-to-face meetings, etc.); and

2) extent to which BoD and its work contribute to the efficiency and shareholder value of KMG and meet the interests of the organization, its shareholders and other stakeholders.

3.10. In the case of independent assessment, BoD should take into account the potential risk of conflict of interest, if assessment is made by a consultant which provides other professional services to the organization. The degree of independence of such consultant should be the subject of separate consideration by BoD.

4. Assessment results

4.1. Based on the Assessment results the report shall be prepared for consideration at BoD meeting, which contains the following data (not limited to):

1) Message of the BoD Chairman on the assessment results;

2) information on the amount of work carried out (in case of an independent assessment), person who has participated in the assessment;

3) statistics of attendance of BoD and Committees' meetings by Directors, execution of BoD annual work plan, number of BoD and Committees' meetings, number of face-to-face/correspondence meetings of BoD and Committees, average duration of meetings of BoD and Committees, average number of issues on the agenda, average duration of discussions on the agenda during the meetings of BoD and Committees, participation of Directors in committees, implementation of activities for BoD development based on the results of previous assessment, etc.;

4) rating: final, in the context of the purposes and components;

5) extracts from assessment results of the previous period, if any;

6) strengths and weaknesses identified as a result of Assessment in the context of the following components:

– definition of strategy, risk management, performance management and BoD impact on all key business decisions;

– Chairman;

– senior independent Director;

– Corporate Secretary;

– Committees: structure, composition, dynamics;

– balance of BoD structure: size, composition, availability and term of office;

– BoD activities: schedule and agenda of meetings, materials for BoD meetings, BoD operational dynamics, remuneration;

– Executive body: selection and appointment, remuneration, responsibilities and efficiency;

– assessment of BoD structure: procedures for nomination, selection and election, induction program and training of BoD members;

- BoD succession planning;

7) key findings of the assessment and issues for discussion by the BoD in the above areas;

8) Plan.

4.2. Report should not contain estimates for Directors or the entire BoD. The report shall include factual and objective findings on the data obtained from the analysis of questionnaires, as well as documents and individual interviews for independent Assessment.

4.3. The draft Report shall be discussed by the Chairman and Chairman of the BoD Nomination and Remuneration Committee. In addition to the Assessment Report, the following documents shall be prepared:

1) individual information for each BoD member on the areas of professional development and increase of involvement and contribution to BoD work, developed on the results of Assessment 360;

2) information to be included in the annual report.

4.4. The plan shall be monitored by the Chairman and the Corporate Secretary. The plan should be long-term, and in the future it should be annually finalized based on the results of subsequent annual assessments.

4.5. Assessment results shall be discussed during BoD closed meeting, which only BoD members and Corporate Secretary may attend, and the Consultant in case of independent assessment. At this meeting BoD members discuss their work conceptually, identifying factors that have reduced their effectiveness and suggesting ways to improve efficiency.

4.6. Assessment results can serve as a basis for re-election of the entire BoD team or an individual Director, for revision of BoD structure and remuneration of BoD members. In case of serious deficiencies in the performance of individual BoD members, the Chairman should consult with the entity holding all voting shares of KMG, a major shareholder.

4.7. The entity holding all KMG voting shares can conduct its own assessment of BoD independently or with the engagement of an independent consultant. Results of the Assessment made independently by the BoD, results of KMG performance, fulfillment of shareholders' expectations and other factors shall be taken into account.

5. Frequency and timing of Assessment

5.1. BoD assessment shall be made once a year by BoD own resources and at least once every three years with the engagement of independent consultants. If necessary, Assessment of all or some of its types can be made two or more times a year, with the appropriate decision of the BoD.

5.2. In the case if there was a diagnostics of corporate governance made in the organization in the reporting period, in order to prevent duplication of processes a separate Assessment for the same reporting period is not made.

5.3. Assessment process shall not take more than 3 months. Assessment process shall start at the beginning of the year following the reporting one, and at the beginning of the second quarter of the year following the reporting one, the final report shall be prepared for consideration at the meeting of the BoD.

6. Procedures of disclosing information on Assessment

6.1. In the annual report on the results of KMG activities BoD indicates, among other things, assessment of KMG position and prospects for its development, as well as the process of Assessment of the activities of BoD, Committees, individual Directors and Corporate Secretary.

22. disclosed information on Assessment includes the following statements:

- 1) on Assessment;
- 2) on types of Assessment, the procedure;
- 3) on the methods used;
- 4) on the fact of discussing Assessment results at the meeting of BoD;
- 5) on the outcome of the discussion and measures taken.

6.2. Information on specific results for each type of Assessment shall be classified as confidential and not subject to disclosure. Consultant's Assessment report and the questionnaires completed by each Director shall be classified as confidential information and stored in a manner consistent with the storage of such documents.

6.3. The entity holding all the voting shares of KMG, major shareholder, shall be provided with Assessment results at its request in the manner prescribed by the Charter and internal documents of KMG.

6.4. Chairman of the Board of Directors shall also determine the format of the information notice on Assessment, intended for public disclosure (in the annual report of KMG, on the website of KMG, etc.).

6.5. In case of engaging an independent consultant, it should be indicated whether it has provided other consultancy services to the entity holding all the voting shares of KMG, major shareholder, during the last three years. This report shall be provided to the entity holding all the voting shares of KMG/shareholders at the annual general meeting of shareholders.

7. Conclusion

The Board of Directors of KMG subsidiary is recommended to develop a similar Assessment document based on the Regulation.